White Paper

THE NEW CHIEF AUDIT EXECUTIVE

LEADERSHIP IN THE RISK-INTELLIGENT ORGANIZATION

Galvanize

Table of Contents

Introduction

Corporate scandals, worldwide regulatory demands, and the recovery from the global financial crisis have all created new pressures on chief audit executives (CAEs) and the internal audit profession.

CAEs today need to make a tough choice: remain as traditional auditors focused on executing the audit plan, or elevate their role, particularly in the area of risk management, to that of a strategic business partner to the C-suite. Those who choose to reside on the more tactical side of their job description may enjoy less financially rewarding career opportunities; however their services will still remain in high demand for the foreseeable future. Those who take advantage of innovation, enhanced board committee relationships, and other strategic priorities, will help lead their companies to greater success.

Regardless of their decision, CAEs must deal with the challenges of doing more with less, continuing to tame unruly internal controls and data environments, and working with increasingly technology-savvy business partners.

Successfully addressing these demands requires a combination of leadership, processes, and tools like automation, analytics and continuous auditing to deliver greater efficiencies and effectiveness.

Why the choice exists

It's the challenges that keep C-suite executives awake at night that explain exactly why CAEs hit this juncture of choice. The increased speed of globalization and business competition, uncertain economic conditions, and other operational challenges have resulted in CEOs and CFOs calling for leadership in the business to cut costs, reduce headcounts, and seek new value. Internal audit is not immune from this directive, needing to teach the business how to take ownership of internal controls monitoring, reduce compliance costs, enable real-time auditing and risk management, redeploy current internal audit staff and, above all, add value. This mounting pressure arises from three drivers: macroeconomic pressures; a procession of corporate crises, regulatory responses, ensuing compliance efforts; and the changing nature of both organizational technology and the operational workforce that relies on these systems to support their business processes.

Identifying the CAE's Risk IQ

Fifteen years ago, senior executive teams explored emotional intelligence in an effort to bolster organizational competitiveness by identifying high-potential employees and future leaders. Today, companies that are most effective and efficient in managing risks and take advantage of risk intelligence as the basis for competitive differentiation.

At its foundation, the risk intelligent company manages risk in a holistic way; these companies not only prevent, detect and correct critical risk issues quickly, they use their risk management capabilities to improve organizational flexibility so that strategic opportunities can be leveraged.

The Chief Audit Executive can and should play a central role in the risk-intelligent company. How? To start with, by addressing the following questions, according to Deloitte's white paper, The Risk Intelligent Chief Audit Executive:

- Are we speaking the language of management? Are we assessing risks to future growth (value creation) or are we solely focused on the protection of existing assets?
- Are we assessing risks in isolation or are we looking at how these risks may interact and cascade?
- Is there a uniform framework to align the various risk specializations regarding governance, risk, and compliance assessments so we can reduce the cost burden on the business? For example, can we reduce the number of risk and control self-assessments?
- Do existing risk assessments reliably and adequately assess inherent and residual risk exposures?

Key trends shifting the audit profession

1. STRICTER REGULATORY PRESSURES

Regulatory agencies have become a lot stricter following the 2007-08 global recession. Since it largely resulted from financial services companies having insufficient risk management capabilities, corporate executive teams and their boards are now expected to demonstrate much stronger risk management capabilities.

The US Securities and Exchange Commission (SEC) is one example of a regulator heightening its expectations. In December 2009, it approved enhanced disclosure requirements concerning what risk information publicly listed companies need to provide to shareholders. Corporate boards now need to more clearly identify how they want to oversee not only the operational risks companies face, but also credit risks, liquidity risks, and other high-level material risks.

Corporate scandals like that of Enron, WorldCom, Parmelat, Royal Ahold, and others, as well as regulations like the Sarbanes-Oxley Act (SOX) have also made companies much more focused on the business process internal controls that help limit such risks.

2. TRADITIONAL VS. STRATEGIC RISK FOCUS

With all these regulatory pressures, companies have arguably gone overboard in their efforts to eliminate the possibility of all financial, operational, and compliance problems. So much that the same risks were being managed multiple times. This approach may have worked for traditional risks, but didn't necessarily extend to strategic risks.

Today, the overall risk management focus within global businesses has swung toward strategic risks. "Internal audit really needs to shift from an exclusive focus on the traditional areas of financial, operational, and compliance risk and get more involved in understanding the overall strategic business risk areas," notes John Verver, an enterprise governance technology expert.

"Managing internal audit's traditional risk terrain remains a strict requirement," Verver asserts. "However, given current economic, regulatory, and competitive conditions, these traditional risk areas need to be managed in a much more efficient way without sacrificing a shred of effectiveness, through dedicated technology."

3. AUDIT-AWARE, TECH-SAVVY LEADERSHIP

Executives and a new generation of managers have also grown more accustomed to business intelligence tools and real-time performance management reporting.

The new audit-aware and technologically competent business leader will use any and all of the tools at their disposal to find risks faster to deliver on their expectations. They will also seek out strong, strategically-minded business partners to help them demonstrate value and provide confidence to leadership.

CAEs now require CEO skills

The complete specifications for CAE openings at companies that treat the position as a strategic business partner read very much like a job description for a new CEO.

Consider some of the following descriptions of job specifications for recent CAE position openings at leading companies to get a feel for just how broad and deep the CAE skill set now extends:

- "Must demonstrate a solid understanding of the company's business, core strategies, risk appetite, and risk tolerance."
- "Must be willing to raise difficult issues with senior management and the audit committee—even if such actions prove unpopular."
- "Must partner with senior management and the audit committee to help them fulfill their broad responsibilities for effective governance."
- "Must be able to think strategically about the internal audit function, its mission, and its strategic resources, including attracting highly qualified staff."
- "Must be seen as business partner rather than 'corporate cop'."

CAEs intent on establishing their function's value as a strategic business partner can leverage a unique opportunity to provide additional risk insights, given their visibility into, and understanding of, their enterprise's holistic risk management activities.

Efficiency demands confront everyone

Internal audit executives can choose to fill that seat at the senior decision-making table or not. Assuming the role of strategic business partner requires internal audit executives to take a prominent role in boosting their organization's risk intelligence. Electing not to fill that role, again, remains a perfectly valid decision, albeit one with the potential for less career growth beyond internal audit.

Regardless of the outcome of this personal decision, the vast majority of CAEs and internal audit functions face a similar set of challenges that require them to ply their craft with greater efficiency and effectiveness. Addressing these widespread challenges, as The IIA President and CEO Richard Chambers laid out in a keynote address that identified priorities for internal auditors, requires numerous steps, including the following:

- Aligning internal audit coverage to meet new expectations
- Realigning skills to address new requirements
- Coping with diminished resources
- Demonstrating value and adding to the bottom line
- Maintaining stature with the audit committee
- Leveraging technology to achieve greater efficiencies.

Why is the final priority so important? Because technology can help internal audit functions achieve each of the other priorities.

"When internal audit makes greater use of automation, analytics and continuous auditing, it demonstrates its value as a highly effective and highly efficient contributor to the company's overall risk management program and its bottom line," notes Verver.

For example, when Palomar Pomerado Healthcare (PPH) District Audit Officer Tom Boyle implemented GRC software to enable continuous auditing within his function and continuous monitoring of internal controls by an operational group, he helped the largest healthcare district in the US reduce costs and strengthen its overall risk management capabilities by helping to make his operational partners more audit-aware.

Following cutbacks as well as new regulatory requirements in recent years, Boyle's department, like the majority of internal audit functions, was forced to do more with less. By instituting software to automatically scour transactions for errors, he replaced the need for manual (and much less effective) reviews. However, by enabling operational business partners to use the monitoring tool, he empowered them in two ways.

"The primary objective is to identify errors," Boyle said. "Second, and this is where the major value resides, this is a terrific analytic tool that gives operational people accurate and real-time information on how their various healthcare plans are performing."

By taking a leadership role as a business-aware auditor, Boyle is helping the rest of his organization become more audit-aware. By doing so, he is freeing his own internal audit resources to focus on other priorities, like completing the annual audit plan and focusing their attention on areas of high strategic risk.

Same role, new opportunities

Auditing automation delivers one additional benefit, which is particularly valuable in light of a highly volatile economic picture: sustainability.

By storing practices, knowledge, and data in a user friendly and easily accessible system rather than solely in an individual's brain, internal audit functions are better positioned to manage the types of significant changes that are occurring with greater frequency today: organizational restructuring, staff reductions, and the departure of top internal audit talent for more rewarding jobs.

It could be argued that few functions are sustainable in an organization if they are not aligned closely with the vision and goals of the CEO and CFO.

Whether or not the current risks confronting CAEs and internal audit functions today turn out to be rewards or losses tomorrow depends, largely, on how effective—and sustainable—their responses to current pressures are today.

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Shayne Gregg has over 20 years experience providing risk consulting and assurance services to Deloitte's largest clients in New Zealand, Europe, Canada, and the US. Aside from his practice management responsibilities within Deloitte, Shayne now spends a lot of his time working with senior executives and board members to understand their biggest risks and concerns, and produce innovative strategies and solutions from across the spectrum of Deloitte.

About Galvanize

Galvanize builds award-winning, cloud-based security, risk management, compliance, and audit software to drive change in some of the world's largest organizations. We're on a mission to unite and strengthen individuals and entire organizations through the integrated HighBond software platform. With more than 7,000 customer organizations in 140 countries, Galvanize is connecting teams in 60% of the Fortune 1,000; 72% of the S&P 500; and hundreds of government organizations, banks, manufacturers, and healthcare organizations.

Whether these professionals are managing threats, assessing risk, measuring controls, monitoring compliance, or expanding assurance coverage, HighBond automates manual tasks, blends organization-wide data, and broadcasts it in easy-to-share dashboards and reports. But we don't just make technology—we provide tools that inspire individuals to achieve great things and do heroic work in the process.